

Message Text

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ACTION EB-08

INFO OCT-01 AF-10 ARA-10 EUR-12 EA-10 ISO-00 INT-05

SSO-00 NSCE-00 ICAE-00 AGRE-00 CEA-01 CIAE-00

DODE-00 FRB-03 H-01 INR-10 L-03 LAB-04 NSAE-00

PA-01 CTME-00 AID-05 SS-15 STR-07 ITC-01 TRSE-00

SP-02 SOE-02 OMB-01 DOE-15 GSA-02 IO-13 INRE-00

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O R 100804Z APR 78

FM AMEMBASSY BANGKOK

TO SECSTATE WASHDC IMMEDIATE 2807

AMEMBASSY LONDON IMMEDIATE

INFO AMEMBASSY CANBERRA

AMEMBASSY JAKARTA

AMEMBASSY KINSHASA

AMEMBASSY KUALA LUMPUR

AMEMBASSY LA PAZ

AMEMBASSY MADRID

AMEMBASSY MANILA

AMEMBASSY MOSCOW

AMEMBASSY RANGOON

AMEMBASSY SINGAPORE

AMEMBASSY VIENTIANE

USDOC

C O N F I D E N T I A L SECTION 1 OF 2 BANGKOK 10335

DEPARTMENT PASS USGS AND BUREAU OF MINES

E.O. 11652: GDS

TAGS: EMIN, TH

SUBJECT: TIN PRODUCTION IN SEA: MORE THAN MEETS THE STATIS-
TICAL EYE

REF: STATE 84659 (NOTAL)

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1. AS PART OF TIN INDUSTRY REVIEW CITED REFTTEL, WE BELIEVE IT
WOULD BE USEFUL FOR THE DEPARTMENT TO TAKE A CLOSE LOOK AT
STATUS OF TIN PRODUCTION AND TIN SMELTING IN SEA. ON THE
BASIS OF A RECENT SWING THROUGH SINGAPORE AND MALAYSIA BY
REGIONAL RESOURCES OFFICER, IT APPEARS TO US THAT: (1) TIN
PRODUCTION, ALTHOUGH APPARENTLY IN DECLINE STATISTICALLY,
PARTICULARLY IN MALAYSIA (KUALA LUMPUR 2080), MAY IN

FACT BE HOLDING STEADY AND, IN SOME INSTANCES, INCREASING; AND (2) IN ADDITION TO THE SUSPICION THAT PENANG SMELTERS CONTINUE TO PROCESS SOME BOOTLEGGED ORE, MUCH OF IT OF ALLEGED AUSTRALIAN ORIGIN, SINGAPORE, FROM ALMOST A STANDING START FOUR YEARS AGO, HAS BECOME A "GREY MARKET" ENTREPOT FOR PERHAPS 10 PERCENT OF SEA'S TIN CONCENTRATES SMUGGLED FROM THAILAND, BURMA, MALAYSIA, AND INDONESIA. THIS ORE, WHICH WE BELIEVE DOES NOT APPEAR IN PRODUCTION DATA ISSUED BY THE COUNTRIES OF ORIGIN--IT DOES NOT IN THAILAND--PROBABLY TOTALED ABOUT 15,000 TONS IN 1977. INDUSTRY SOURCES SAY THAT BECAUSE OF HEAVY BUYING OF TIN METAL AND TINE ORE IN SINGAPORE AND MALAYSIA BY EASTERN EUROPEAN COUNTRIES, ESPECIALLY THE USSR, THE FLOOD OF TIN REACHING THE "GREY MARKET" DID NOT DEPRESS WORLD MARKET PRICES IN 1977. SINGAPORE OFFICIALS POINT OUT THAT IT IS NOT ILLEGAL TO IMPORT TIN ORE IN THE SINGAPORE FREE MARKET AND THAT IT IS UP TO PRODUCER GOVERNMENTS TO CONTROL THEIR EXPORTS OF ORE. IT IS, OF COURSE, THE HIGH TIN TAX AND ROYALTY RATES IN COUNTRIES SUCH AS THAILAND AND MALAYSIA WHICH PROVIDE MINERS WITH AN INCENTIVE TO END-RUN THEIR SYSTEMS, AND THIS HAS BROUGHT THE SINGAPORE "GREY MARKET" INTO EXISTENCE.

2. OUR METHODOLOGY FOR ESTIMATING THE TONNAGE OF ORE MOVING IN SMUGGLING CHANNELS IS ALRGELY DEDUCTIVE AND ADMITTEDLY SKETCHY, AND WE DEFER TO OTHER ADDRESSEES CONFIDENTIAL

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WITH REGARD TO DATA LISTED FOR NON-THAI SOURCES. THE FOLLOWING THOUGHTS ARE OFFERED MAINLY TO PROVOKE DISCUSSION, WHICH SHOULD RESULT IN BETTER UNDERSTANDING OF THE INDUSTRY.

A. THAILAND. THE SMUGGLING OF ORE OUT OF THAILAND, WHERE TAX AND MINERAL ROYALTY RATES AMOUNT TO ABOUT 35 PERCENT OF THE VALUE OF PRODUCTION, HAS LONG BEEN ENDEMIC AND HAS BEEN EXPLOITED AS A SOURCE OF REVENUE BY RACKETEERS AS WELL AS ARMED INSURGENTS. IT INCREASED MARKEDLY IN 1974-75 WHEN SEVERAL THOUSAND POACHERS INVADDED AN OFF-SHORE TIN CONCESSION WHICH THE RTG WITHDREW FROM TEMCO. IN 1976 AND 1977 WE ACCEPTED INDUSTRY SOURCE ESTIMATES THAT ABOUT 5,000 TONS OF TINE ORE WERE SMUGGLED OUT OF THE COUNTRY EACH YEAR (BANGKOK A-26, 1978; BANGKOK A-40, 1977). HOWEVER, THE EXECUTIVE DIRECTOR OF THE RTG'S OFFSHORE MINING ORGANIZATION INSISTS THAT IN 1977 SMUGGLING INCREASED TO A RECORD LEVEL OF 7,000 TONS AFTER THE RTG INCREASED THE ROYALTY RATE IN MID-YEAR. DMR SOURCES, WHO ARE RESPONSIBLE FOR COLLECTING MINING ROYALTIES, DISPUTE THIS. (THEY ALLEGE THAT ITC OFFICIALS BELIEVE TOTAL ORE SMUGGLED OUT OF ALL COUNTRIES IN SEA

DOES NOT EXCEED 7,000 TONS.) ON BASIS FOREGOING, WE HAVE REVISED OUR ESTIMATE TO 6,000 TONS OF ORE SMUGGLED OUT OF THAILAND IN 1977. IN ADDITION TO THIS, THE RECORDED PRODUCTION OF THAI TINE ROSE IN 1977 TO ABOUT 33,000 TONS FROM 28,000 TONS IN 1976; TIN METAL EXPORTS TOTALLED ABOUT 24,000 TONS IN 1977.

B. LAOS. FRENCH ENGINEERS WHO OPERATED THE SEEMI TIN MINE IN LAOS UNTIL IT WAS NATIONALIZED IN SEPTEMBER 1977 SAY THAT THE MINIE PRODUCES ABOUT 1,000 TONS OF CONCENTRATES ANNUALLY. PREVIOUSLY, THE ORE, WHICH IS TRUCKED FROM NONG KHAI TO BANGKOK, WAS SHIPPED TO THE SMELTER AT BUTTERWORTH ON THE MAINLAND ACROSS FROM PENANG. OFFICIALS OF STRAITS TRADING COMPANY IN SINGAPORE, WHO OPERATE THE CONFIDENTIAL

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BUTTERWORTH SMELTER, SAY THAT LAOTIAN ORE IS NO LONGER DELIVERED TO THE BUTTERWORTH SMELTER. INSTEAD, IT IS HANDLED BY METALS MERCHANTS IN SINGAPORE. THIS TRADE, OF COURSE, IS NOT CONTRABAND. IT IS SIMPLY A CHANGE OF SALES VENUE, BUT THE LOSS OF THIS ORE IS BEING FELT AT THE SMELTER.

C. BURMA. SMELTER OFFICIALS AT PENANG AND BUTTERWORTH, WHO HAVE FOR MANY YEARS PURCHASED BURMS'S OFFICIAL OUTPUT OF TIN ORE AT STATE-RUN AUCTIONS IN RANGOON, ESTIMATE BURMESE PRODUCTION AT ABOUT 1,400 TONS OF CONCENTRATES PER YEAR. THEY SAY THAT ABOUT 700 TONS REACH THE SMELTERS OFFICIALLY AND 700 TONS "DISAPPEAR." SINGAPORE STATISTICS SHOW THAT 2,298 M/T OF BURMESE ORE REACHED SINGAPORE AND MALAYSIA IN 1976 AND THAT 1,311 M/T REACHED THOSE TWO POINTS IN THE PERIOD JAN. - SEPT. 1977. ITC DATA SHOW THAT BURMA EXPORTED 1,637 M/T TO MALAYSIA IN 1976 AND 631 M/T TO MALAYSIA IN THE PERIOD JAN. - JULY 1977.

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ACTION EB-08

INFO OCT-01 AF-10 EUR-12 EA-10 ISO-00 ARA-10 INT-05
SSO-00 NSCE-00 ICAE-00 INRE-00 AGRE-00 CEA-01
CIAE-00 DODE-00 FRB-03 H-01 INR-10 L-03 LAB-04
NSAE-00 PA-01 CTME-00 AID-05 SS-15 STR-07 ITC-01
TRSE-00 SP-02 SOE-02 OMB-01 DOE-15 GSA-02 IO-13
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FM AMEMBASSY BANGKOK
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AMEMBASSY SINGAPORE
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USDOC

C O N F I D E N T I A L SECTION 2 OF 2 BANGKOK 10335

DEPARTMENT PASS USGS AND BUREAU OF MINES

D. MALAYSIA. BUTTERWORTH AND PENANG SMELTER OFFICIALS
SAY THAT INTAKE OF CONCENTRATES AT THE SMELTERS HAS
DECLINED STEADILY IN RECENT YEARS, TO ABOUT 59,000 TONS
IN 1977. THEY BELIEVE MALAYSIAN PRODUCTION REMAINS AT
ABOUT 66,000-67,000 TONS ANNUALLY AND AGREE THAT SOME
7,000 TONS ARE REACHING SINGAPORE COVERTLY. SMELTER
OFFICIALS BELIEVE, HOWEVER, THAT RECENT LEGISLATIVE
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CHANGES, WHICH THEY SAY WILL AUTHORIZE FEDERAL MALAYSIAN
OFFICIALS TO SEARCH SUSPECTED TIN SMUGGLING BOATS AND
VEHICLES ANYWHERE IN COUNTRY, RATHER THAN ONLY AT THE
JOHORE CAUSEWAY, MAY HELP TO REDUCE THIS FLOW. ACCORDING
TO SMELTER OFFICIALS, A SURCHARGE IMPOSED ON TIN BY
GOM IN 1976 AGGRAVATED AN ALREADY SERIOUS SMUGGLING
PROBLEM. STRAITS TRADING COMPANY EXECUTIVES COMPLAIN
THAT THE DIVERSION OF MALAYSIAN ORES TO SINGAPORE HAS OF
NECESSITY REDUCED SMELTER OPERATIONS (AND PROFITABILITY)
AT BUTTERWORTH. ON THE OTHER HAND, PENANG SMELTER OFFICIALS
(DATUK KERAMUT SMELTING SDN.) SAY THAT ACCESS TO
INCREASED SUPPLIES OF AUSTRALIAN ORE HAS PERMITTED THE
PENANG SMELTER TO CONTINUE TO OPERATE AT NEARLY FULL

CAPACITY. (PENANG SMELTER OFFICIALS INSIST, NOT VERY CONVINCINGLY, THAT THEY HAVE NOT SINCE 1976 ACCEPTED BOOTLEGGED ORES FROM THAILAND AND ELSEWHERE UNDER BURMESE CERTIFICATES OF ORIGIN.) IT IS WIDELY BELIEVED, HOWEVER, THAT MUCH OF THIS "AUSTRALIAN" ORE IS OF THAI, BURMESE, MALAYSIAN, AND PARTICULARLY INDONESIAN ORIGIN. STATISTICALLY, THE PICTURE ON AUSTRALIAN EXPORTS OF TIN-IN-CONCENTRATES TO MALAYSIA LOOKS LIKE THIS:

1974 1975 1976 1977
(METRIC TONS)

A. ITC DATA ON AUSTRALIAN (JAN-SEPT)
EXPORTS TO MALAYSIA 3,051 3,292 2,209 2,946

B. ITC DATA ON MALAYSIAN (JAN-JULY)
IMPORTS FROM AUSTRALIA 3,710 3,535 3,486 2,337

C. DATA ON MALAYSIAN IMPORTS
FROM AUSTRALIA, SUPPLIED TO
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SINGAPORE STATISTICAL
OFFICE BY MALAYSIA (JAN-SEPT)
AUTHORITIES N.A N.A 6,119 5,422

THE GAP BETWEEN LINES A AND B MIGHT HAVE BEEN SOME REASONABLE EXPLANATION, BUT THAT BETWEEN A AND C IN 1976 AND 1977 APPEARS UNBRIDGEABLE BY LOGIC. THERE ARE ALSO ANOMALIES WITH REGARD TO EXPORT DATA. FOR EXAMPLE, SINGAPORE TRADE STATISTICS SHOW THAT SINGAPORE EXPORTED 2,266 M/T OF TIN-IN-CONCENTRATES TO SPAIN (AND 1,173 M/T TO THE USSR) IN 1976; YET THE ITC RECORD OF SPANISH IMPORTS IN 1976 DOES NOT LIST SINGAPORE AS A SOURCE AT ALL (ALTHOUGH IT DOES LIST 600 M/T IMPORTED FROM MALAYSIA.) IN THAT REGARD, SINGAPORE'S CHIEF STATISTICIAN TOLD THE RRO AND A SINGAPORE EMBOFF IN MARCH THAT WHILE IT IS OBVIOUS THAT SINGAPORE'S IMPORTS STATISTICS ARE SUSPECT WITH REGARD TO TIN, HE IS CONVINCED OF THE ACCURACY OF THE EXPORT DATA. HOWEVER, SINGAPORE'S GROWING ROLE AS AN ENTREPOT FOR TIN SMUGGLED FROM ITS ASEAN PARTNERS IS BECOMING A POLITICAL SORE POINT, AND THIS MIGHT WELL CREATE AN INCENTIVE TO ERR ON THE SIDE OF UNDER-REPORTING SINGAPORE'S TIN EXPORTS. THE RTG HAS HELD UNSUCCESSFUL TALKS WITH THE GOS ABOUT STEPS TO STOP THE COVERT TIN TRADE, AND RTG MINERALS AUTHORITIES HOPE THE MFA WILL RAISE THE ISSUE IN AN ASEAN CONTEXT SOON.

3. NO DOUBT THE DEPARTMENT AND OTHER POSTS WILL BE ABLE TO REFINE OR CORRECT OUR ESTIMATES, THUS MAKING IT POSSIBLE

TO ARRIVE AT A MORE ACCURATE PICTURE THAN WE HAVE NOW OF
TIN PRODUCTION AND TRADE IN SEA. WE ASSUME SUCH INFORMATION
WILL PROVE USEFUL IN DEALING WITH PROTESTS WHICH PRODUCERS
WILL LODGE AGAINST USG STRATEGIC STOCKPILE DISPOSAL PLANS.
WHITEHOUSE

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